Michigan Deptartment of Treasury 496 (2-04) Auditing Procedures Report

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Local Gove	mment Type	nship		Village	Other	Local Governme ST CLAIR		RE AUTHOR	ITY	County ST C	LAIR	, L
Audit Date 9/30/04				Opinion 2/23/			Date Account 3/30/05	ant Report Submitte	ed to State:			
accordan	ce with th	e St	atem	ents of	the Govern	mental Accou	unting Stand	and rendered dards Board (Can by the Michigan)	SASB) and th	ne <i>Uniform</i>	Repor	nts prepared i ting Format fo
We affirm												
1. We h	nave comp	lied v	with th	ne <i>Bulle</i> i	tin for the Au	idits of Local C	Jnits of Gov	ernment in Micl	nigan as revise	ea.		
		٠			_	d to practice in						
	er affirm the				responses h	ave been disc	closed in the	financial stater	ments, includi	ng the notes	, or in	the report of
You must	check the	app	licable	e box fo	r each item t	pelow.						
Yes	√ No	1.	Certa	ain com	ponent units	/funds/agencie	es of the loc	al unit are exclu	uded from the	financial sta	ateme	nts.
Yes	√ No	2.		e are a of 1980)		deficits in one	e or more o	f this unit's unr	eserved fund	balances/re	tained	earnings (P.A
Yes	√ No	3.		e are ir nded).	nstances of	non-complian	ce with the	Uniform Acco	unting and B	udgeting Act	(P.A	. 2 of 1968, a
Yes	✓ No	4.						her an order i ency Municipal		the Municip	al Fin	ance Act or i
Yes	√ No	5.		The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).								
Yes	√ No	6.	The	local un	nit has been	delinquent in d	distributing to	ax revenues tha	at were collect	ed for anoth	er tax	ing unit.
Yes	√ No	7.	pens	sion ber	nefits (norma	al costs) in the	current ye	quirement (Artio ar. If the plan i t, no contributio	s more than	100% funde	d and	the overfunding
Yes	✓ No	8.		local u L 129.2		dit cards and	has not ac	dopted an appl	icable policy	as required	by P.	A. 266 of 199
Yes	✓ No	9.	The	local ur	nit has not ac	dopted an inve	estment polic	cy as required b	y P.A. 196 of	1997 (MCL	129.9	5).
We have	e enclose	d the	e folic	wina:					Enclosed	To Be Forward		Not Required
					nendations.				✓			
Reports	on individ	ual f	edera	l financi	al assistance	e programs (pr	rogram audi	ts).				✓
Single A	Audit Repo	rts (A	ASLG	U).								✓
	Public Accour				CPAS							
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	int Signature			110	ud0-13	Mars	2			Date		

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INDEPENDENT AUDITORS' REPORT

To the St. Clair Area Fire Authority Board St. Clair, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the St. Clair Area Fire Authority, as of and for the year ended September 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the St. Clair Area Fire Authority management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the St. Clair Area Fire Authority, as of September 30, 2004, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the St. Clair Area Fire Authority's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 14, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and related statements, as of October 1, 2003.

Berthemend & Co.

February 23, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the St. Clair Area Fire Authority's financial statements provides an overview of the Authority's financial activities for the fiscal year ended September 30, 2004. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide a basic understanding of the St. Clair Area Fire Authority's statements. These statements comprise three components: (1) governmental-wide financial statements, (2) fund (modified accrual) financial statements, and (3) notes to the financial statements. Supplementary information is also provided for additional information purposes.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the St. Clair Area Fire Authority's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the St. Clair Area Fire Authority's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund (Modified Accrual) Financial Statements

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds (modified accrual) statements with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the Authority's near term financing decisions.

The St. Clair Area Fire Authority adopts an annual budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund (modified accrual) financial statements.

FINANCIAL HIGHLIGHTS

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Authority's assets exceeded liabilities by \$245,617 at the ended of the fiscal year.

The net assets is separated into two major components, investment in capital assets net of related debt, which amounted to \$190,127 or 77% of net assets, and unrestricted net assets of \$55,490 or 23%.

When comparing this fiscal year to the previous year, net assets have increased by \$107,648, which was an increase of 78%. The increase is a result of additional contributions from the participating municipalities to eliminate the deficit and to provide cash flow to pay debt retirement.

(Because this is the first year of implementation of Governmental Accounting Standards Board No. 34, which requires this new reporting model, the following table presents only current year data. In future years, when prior year information is available, comparative analysis of the Authority's data will be presented).

Statement of Net Assets

Current assets Capital assets Total Assets	\$ 635,372
Long-term liabilities outstanding Other liabilities Total Liabilities	506,411 <u>591,547</u> <u>1,097,958</u>
Net Assets: Invested in capital assets, net of related debt Unrestricted Total Net Assets	190,127 55,490 \$ 245,617

Statement of Activities

Revenues	4.06.010
Fire Contracts	\$496,019
State Grant	7,500
Interest	530
Other	<u>3,500</u>
Total Revenues	507,549
Expenses	
Operations	301,558
Depreciation	82,207
Debt Service	16,136
Total Expenses	399,901
Increase in net assets	107,648
Net assets at beginning of year	137,969
Net assets at end of year	\$245,617

Financial Analysis of Fund (Modified Accrual) Statements

As noted earlier, the focus of the fund (modified accrual) financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Authority reported an ending fund balance of \$55,490, an increase of \$85,892 from the prior year. As indicated earlier, the increase is mainly a result of additional contributions for participating municipalities to eliminate the prior years deficit and provide cash flow for debt retirement.

BUDGETARY HIGHLIGHTS

The Authority annually prepares formal budgets with amendments made when necessary. There were no budget amendments for the year. The only significant difference between the original budget and the actual result was for capital outlay/debt service, which had an original budget of \$194,382 and actual expenditures of \$139,079.

CAPITAL ASSETS

The Authority had \$708,203 in capital assets, net of accumulated depreciation, at September 30, 2004, which was a decrease of \$55,812. During the year, the Authority purchased \$26,395 in capital assets. The major of this was for building improvements. There was depreciation of \$82,207 for the year.

The following table summarizes the capital assets at September 30, 2004 and 2003.

	2004	2003
Building Improvements	\$ 17,905	\$ -
Vehicles	794,086	794,086
Other Equipment	19,086	<u> 10,596</u>
Sino. 24mpinon	831,077	804,682
Accumulated Deprecation	(122,874)	<u>(40,667)</u>
	\$708,203	<u>\$764,015</u>

During fiscal 2004, the Authority anticipates purchasing a new ambulance for approximately \$86,000, and various other miscellaneous equipment.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

For fiscal 2005, the Authority has adopted a balanced budget with anticipated revenues and expenditures of \$505,671. This is an increase of \$24,608 or 5.1% from fiscal 2004.

CONTACTING THE AUTHORITY MANAGEMENT

This financial report is designed to provide a general overview of the St. Clair Area Fire Authority's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the St. Clair County Area Fire Authority, 216 Cass Street, St. Clair, MI 48079.

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS SEPTEMBER 30, 2004

And the second second		Go	vernmental Fund	justments Note 2)	tement of et Assets
per commune 1 to 1	ASSETS Cash and cash equivalents Capital assets, net of accumulated depreciation	\$	635,372	\$ -	\$ 635,372
	Assets being depreciated	,.	635,372	 708,203	 708,203 1,343,575
	LIABILITIES AND FUND EQUITY	-			
	Liabilities:	\$	1,243	\$ -	\$ 1,243
	Accrued wages Accrued fire runs		63,890	-	63,890
	Accounts payable		3,195	-	3,195
	Accrued payroll taxes		5,883	-	5,883
	Deferred revenues		505,671	-	505,671
	Accrued interest		-	11,665	11,665
_	Notes payable				
	Due with one year		-	78,150	78,150
	Due in more than one year			 428,261	 428,261
_	pue in more than one year		579,882	 518,076	 1,097,958
	Fund Balance: Unreserved/Undesignated		55,490	(55,490)	
	Onreserved/Ondesignated	\$	635,372		
	Net Assets Invested in capital assets, net of related debt			190,127	190,127
_	Unrestricted			 55,490	 55,490
	Total Net Assets			\$ 245,617	\$ 245,617

See Notes to Financial Statements

STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Gov	ernmental Fund	Adjustments (Note 2)		Statement of Net Assets	
Revenues:						
Fire Contracts	_		•		•	67.709
Charter Township of East China	\$	67,798	\$	-	\$	67,798
Charter Township of China		49,786		-		49,786
St. Clair Township		139,502		-		139,502
City of St. Clair		238,933		-		238,933
State Grant		7,500		-		7,500
Contributions - Private Source		3,500		-		3,500
Interest		530		-		530
		507,549				507,549
Expenditures/Expenses:						201.550
Operations		301,558		-		301,558
Depreciation		-		82,207		82,207
Capital Outlay		26,395	(26,395)		-
Debt Service		93,704	(77,568)		16,136
		421,657	(21,756)		399,901
Excess of revenues over expenditures/expenses		85,892		21,756		107,648
Fund Balance (Deficit)/Net Assets at October 1, 2003	(30,402)	<u></u>	168,371		137,969
Fund Balance/Net Assets at September 30, 2004	<u>\$</u>	55,490	\$	190,127	\$	245,617

See Notes to Financial Statements

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED SEPTEMBER 30, 2004

		Original/ Amended Budget	Actual	Variance Favorable (Unfavorable)
	Revenues: Fire Contracts State Grant Interest Contributions - Private Source	\$ 481,063 - - - 481,063	\$ 496,019 7,500 530 3,500 507,549	\$ 14,956 7,500 530 3,500 26,486
	Expenditures: Operations Capital Outlay Debt Service	481,063	301,558 26,395 93,704 421,657	59,406
	Excess of revenues over expenditures/expenses	-	85,892	85,892
-	Fund Balance (Deficit) at October 1, 2003 Fund Balance at September 30, 2004	(30,402) \$(30,402)	(30,402) \$ 55,490	<u> </u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting and reporting policies of the Authority included in the basic financial statements conform to U.S. generally accepted accounting principles applicable to state and local governments.

A. Reporting Entity -

The St. Clair Area Fire Authority was created as legal and administrative agency pursuant to the Urban Cooperation Act, PA 1967, Ex. Sess., No. 7. It is a quasi governmental agency organized to provide fire fighting services to the participating municipalities, currently the City of St. Clair, the Charter Townships of East China and China and St. Clair Townships. The Authority is operated by an eight (8) member board, two (2) from each of the participating municipalities.

B. Government-Wide and Fund Financial Statements -

The governmental-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information of all of its activities of its authority. The St. Clair Area Fire Authority is accounted for in one governmental type fund.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation -

The government-wide financial statements (i.e. the Statement of Net Assets and Statement of Activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The fund (modified accrual) statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

D. Assets, Liabilities and Net Assets or Equity -

Cash Equivalents – Cash equivalents are deposits and short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase.

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Capital Assets – Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following:

	<u>Years</u>
Building Improvements	20
Fire Trucks	10
Other Equipment	3-10

The Authority utilizes a number of assets that were purchased by the applicable entities prior to organizing as an Authority. These assets are not recorded in the Authority financial statements, but rather in the municipalities that purchased the assets.

Deferred Revenues – In both the government-wide and in the fund (modified accrual) financial statements, revenue received or recorded before it is earned is recorded as a deferred revenue. In addition, in the fund statements, revenues that are not both measurable and available are recorded as deferred revenues.

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement.

In the fund financial statements, these items are recorded as an expenditure when paid.

Estimates – In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FINANCIAL STATEMENTS:

A. Explanation of differences between the fund (modified accrual) balance sheet and the government-wide statements of net assets (Page 6).

Fund Balance	\$ 55,490
Capital assets used in the modified accrued activities which are not financial resources and therefore are not reported in the fund statements	
Add – capital assets Deduct – accumulated depreciation	831,077 (122,874)
Long-term notes payments that are not due in current period, therefore, not reported in the fund (modified accrual) activities.	(506,411)
Accrual of Interest on notes payable	(11,665)
Net Assets	\$ 245,617

B. Explanation of differences between the fund (modified accrual) statement of revenues, expenditures and changes in fund balance and the government-wide statement of net activities (Page 7).

Net changes in fund balance – modified accrual	\$ 85,892
The fund (modified accrual) statements report capital outlay as expenditures. However, in the Statement of Net Assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses	
Add – capital outlay Deduct – depreciation	26,395 (82,207)
The repayment of the principal of long-term note consumes current financial resources in governmental funds; however, has no effect on net assets	75,821
Accrued interest on long-term notes reported in the statement of activities do not require the use of current financial resources, and therefore, not reported in the fund (modified accrual) statement	1,747
Change in Net Assets	<u>\$107,648</u>

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

The Uniform Budgetary and Accounting Act, PA 2 of 1968, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The Authority's budget was approved at the account level.

During the year, the Authority incurred expenditures which were in excess of the amounts appropriated, as follows:

	Budget	Expenditures	<u>Variance</u>
Operating supplies	\$10,635	\$14,018	\$3,383
Uniforms	2,448	3,252	804
Uniform Maintenance	900	1,139	239
Hiring/Medical Costs	1,000	2,984	1,984
Contract Services	5,900	7,850	1,950
Liability and Property Damage	11,148	23,194	12,046
Repair and Maintenance	14,750	17,743	2,993
Miscellaneous	200	680	480

NOTE 4 – DEPOSITS AND INVESTMENTS:

Deposits -

Act 217 PA 1982, as amended, authorizes the Authority to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, by section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of September 30, 2004, the Authority only maintained one checking account with a carrying value of \$635,372, and a bank balance of \$644,846. Of the bank balance, \$100,000 was FDIC insured with the balance of \$544,846 uninsured and uncollateralized.

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004

NOTE 5 - CAPITAL ASSETS:

Capital assets for the year ended September 30, 2004 was as follows:

	Balance at October 1, 2003	Additions	Deductions	Balance at September 30, 2004	
Capital Assets, being depreciated Building Improvements Vehicles Other Equipment	794,086 10,596 804,682	\$ 17,905 <u>8,490</u> <u>26,395</u>	\$ - - 	\$ 17,905 794,086 19,086 831,077	
Less accumulated depreciation for Building Improvements Vehicles Other Equipment	39,704 963 40,667	448 79,409 2,350 82,207	- - -	448 119,113 3,313 122,874	
Capital Assets, net	<u>\$ 764,015</u>	<u>\$ (55,812)</u>	<u>\$</u>	<u>\$ 708,203</u>	

As indicated in Note 1, the Authority utilized building and equipment purchased by the member municipalities prior to the forming of the Authority. These assets are not recorded in the Authority's financial statements but rather by the municipalities that purchased the assets.

NOTE 6 - DEFERRED REVENUE:

Governmental funds defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unearned</u>
Contract revenue received prior to meeting all eligibility requirements	\$ 505,671

NOTE 7 – LONG-TERM DEBT:

The following summary of the changes in the long-term debt (including current portion) of the Authority for the year ended September 30, 2004:

	Balance at Oct. 1, 2003	Additions	Deductions	Balance at Sept. 30, 2004	Due within one year
Capital Lease Fire Truck – Due in annual installments of \$93,704, including interest of 3.07%	\$ 582,232	\$	\$ 75,821	<u>\$ 506,411</u>	<u>\$ 78,150</u>

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004

NOTE 7 - LONG-TERM DEBT - (cont'd):

The annual requirements to amortize long-term debt outstanding at September 30, 2004, are as follows:

	<u>Principal</u>	Interest	<u>Total</u>	
2005 2006 2007 2008 2009 2010	\$ 78,150 80,550 83,024 85,574 88,202 90,911 \$506,411	\$ 15,554 13,154 10,680 8,130 5,502 2,793 \$ 55,813	\$ 93,704 93,704 93,704 93,704 93,704 \$562,224	

NOTE 8 - EMPLOYEE PENSION PLAN:

Plan Description -

The Authority participates in the Municipal Employees Retirement System (MERS), a multiple employer state-wide, public employee defined benefit pension plan created under Public Act of 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

Funding Policy -

The plan adopted by the Authority Council requires no member contributions. The Authority is required to contribute at an actuarially determined rate; the rate for fiscal 2003 was 15.96 of payroll. The contribution requirements of plan members and the Authority are established and may be amended by the Authority, depending on the MERS contribution program adopted by the Authority.

Annual Pension Costs -

For fiscal 2004, the Authority's annual pension cost of \$3,739 for MERS was equal to the Authority's required and actual contributions.

The required contribution was determined as part of the December 31, 2001 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation (c) additional projected salary increases ranging from 4.5% to 8.66% per year, depending on age, attributable to seniority/merit and (d) the assumption that benefits will increase 2.5% annually for employees under benefit E-1 or E-2.

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004

NOTE 8 - EMPLOYEE PENSION PLAN - (cont'd):

The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the fund earns the expected rate of return (8%) and includes as adjustment to reflect market value. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

Trend Information (1)

Fiscal Year Ending Dec. 31, 2003	Annual Pension Costs (APC) 6,965 3,739	Percentage of APC Contribution 100 100	Net Pension Obligation -
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Schedule of Funding Progress (1)

Actuarial Valuation Date 2003	Actuarial Value of Assets (a) 37,381	Actuarial Accrued Liability (AAL) Entry Age (b) 57,097	Unfunded (Over funded) Accrued Liability (UAAL) (b-a) 19,716	Funded Ratio AAL (a/b)	Covered Payroll (c) 44,771	UAAL as a % of Covered Payroll ((b-a)/c)
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(1) Three years of information is not available since the Authority was only formed on October 1, 2002.

NOTE 9 – FUNDING:

The Authority is financed each year by the participating municipalities. This funding represents approximately 98% of total revenues for the year ending September 30, 2004. Consequently, the Authority's ability to provide services is dependent upon the continuing support of those municipalities.

NOTE 10 - RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, injuries to employees, medical benefits provided to employees, etc. The Authority has purchased issuance coverage for each of these types of losses, however, would be responsible should the limits of coverage be exceeded.

NOTE 11 – RESTATEMENT:

For the year ended September 30, 2004, the Authority implemented the following Governmental Accounting Standards Board pronouncements:

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004

NOTE 11 - RESTATEMENT - (cont'd):

Statements

- No. 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments
- No. 36 Recipient Reporting for Certain Shared Nonexchange Revenues An Amendment of GASB No. 33
- No. 37 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus
- No. 38 Certain Financial Statement Note Disclosures

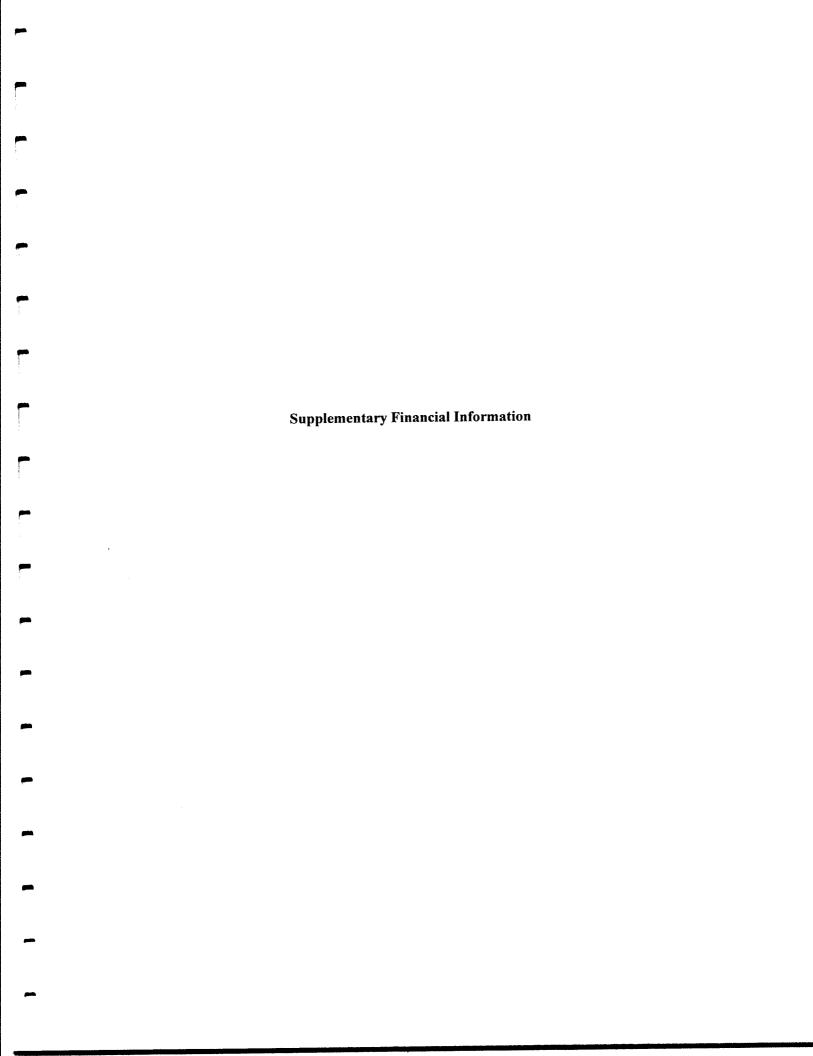
The more significant of the changes required by the new standards include:

- Management's discussion and analysis;
- Basic financial statements that include:
 - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
 - Schedules to reconcile the fund financial statements to the government-wide financial statements;
 - Notes to the basic financial statements;

As a result of implementing these pronouncements for the fiscal year ended September 30, 2004, the following restatements were made to net assets at September 30, 2003:

Government-wide financial statements. Beginning net assets for governmental activities were determined as follows:

(\$30,402) 804,682 (40,667) (13,412) (582,232) \$ 137,969
<u>\$ 137,969</u>



DETAILED SCHEDULE OF OPERATING EXPENDITURES FOR THE YEARS ENDED SEPTEMBER 30, 2004 and 2003

			2004			2003
	Origin Amend Budg	ed	Actual	Fa	ariance avorable favorable)	Actual
Regular Wages Fringes Bonus - volunteers Operating supplies Uniforms Uniform Maintenance Professional fees Hiring / Medical Costs Contracted services Contracted equipment maintenance Telephone Gas and oil Liability and property damage Public utilities Repair and maintenance Education and training Membership and dues Miscellaneous expense Noncapitalized equipment	42 6 10 2 1 5 3 1 12 14 17	398 \$ 217 ,150 ,635 ,448 ,900 ,,000 ,900 ,420 ,,700 ,955 ,148 ,,000 ,,750 ,,750 ,,790 ,,070 ,200 3,980	3,296 6,150 14,018 3,252 1,139 2,984 7,850 3,295 1,631 50 23,194 10,857 17,743 9,952 310 680 18,980	\$ (((((((((((((((((((12,221 4,921 - 3,383) 804) 239) - 1,984) 1,950) 125 69 905 12,046) 1,143 2,993) 7,838 760 480) - - -	\$ 159,261 49,138 5,971 17,847 499 900 825 1,145 8,945 - 3,471 1,223 9,754 10,610 16,999 16,435 335 763 9,321 \$ 313,442